



04016529

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	October 31, 2004
Estimated average burden hours per response.....	12.00

BEST AVAILABLE COPY

ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

SEC FILE NUMBER
8-22273

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17(a) of the
Securities Exchange Act of 1934 and Rule 17a-5 ThereunderREPORT FOR THE PERIOD BEGINNING 01/01/03 AND ENDING 12/31/03
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: CAPITAL INSTITUTIONAL SERVICES, INC.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

750 North St. Paul, Suite 2200

OFFICIAL USE ONLY

FIRM I.D. NO.

Dallas	(No. and Street)	Texas	75201
(City)		(State)	(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
Tim R. Hall (214) 720-0055
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

PricewaterhouseCoopers LLP

(Name - if individual, state last, first, middle name)

2001 Ross Avenue, Suite 1800	Dallas	Texas	75201
(Address)	(City)	(State)	(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant
☐ Public Accountant
☐ Accountant not resident in United States or any of its possessions.

PROCESSED

MAR 29 2004

FOR OFFICIAL USE ONLY

THOMSON
FINANCIAL

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

3-210



**Capital Institutional
Services, Inc.**

Statement of Financial Condition

December 31, 2003

With Report of Independent Public Auditors



PricewaterhouseCoopers LLP
2001 Ross Avenue, Suite 1800
Dallas TX 75201-2997
Telephone (214) 999 1400

Report of Independent Auditors

To the Board of Directors of
Capital Institutional Services, Inc.:

In our opinion, the accompanying statement of financial condition presents fairly, in all material respects, the financial position of Capital Institutional Services, Inc. (the "Company") at December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. This financial statement is the responsibility of the Company's management; our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit of this statement in accordance with auditing standards generally accepted in the United States of America, which required that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

February 16, 2004

Capital Institutional Services, Inc.
Statement of Financial Condition
December 31, 2003

Assets	
Cash	\$ 71,310
Short-term investments	29,892,714
Investments	2,139,060
Receivables from brokers and dealers	2,696,306
Deferred research costs	3,285,191
New York Stock Exchange membership, at cost (market value of \$1,500,000 at December 31, 2003)	770,000
Furniture and equipment, at cost, less accumulated depreciation of \$2,834,796 at December 31, 2003	2,674,746
Other assets	1,716,097
Total assets	<u>\$ 43,245,424</u>
Liabilities and Shareholders' Equity	
Liabilities:	
Accounts payable and accrued liabilities	\$ 5,037,342
Accrued commissions and bonuses	2,046,400
Accrued research services	12,099,231
Accrued income taxes	46,306
Total liabilities	<u>19,229,279</u>
Commitments and contingencies	
Shareholders' equity:	
Common stock, \$.01 par value, 10,000,000 shares authorized, 21,052 shares issued and 20,842 shares outstanding	211
Additional paid-in capital	29,525
Treasury stock shares at cost (210 shares)	(786,250)
Retained earnings	24,772,659
Total shareholders' equity	<u>24,016,145</u>
Total liabilities and shareholders' equity	<u>\$ 43,245,424</u>

The accompanying notes are an integral part of this financial statement.

Capital Institutional Services, Inc.
Notes to Financial Statement
December 31, 2003

1. Nature of Operations and Summary of Significant Accounting Policies

Capital Institutional Services, Inc. (the "Company") is a securities broker/dealer and is a member firm of the New York Stock Exchange and other principal exchanges. The Company executes debt and equity transactions for domestic and international investment advisors, money managers and plan sponsors (the "Money Managers"). The Company transacts business out of offices in Dallas, Texas, and New York, New York.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of assets and liabilities at the date of the financial statements. Actual results may differ from these estimates.

Research Purchasing Power

The Company conducts a portion of its business within the safe harbor of Section 28(e) of the Securities Exchange Act of 1934, as amended. In that regard, the Company executes brokerage transactions for the Money Managers at a negotiated commission rate. As an incentive to use the Company's facilities for the execution of such brokerage transactions, the Company has developed a system to provide third-party research services to Money Managers based upon the frequency of use of its facilities.

The amount of third-party research services that the Company will furnish to the Money Managers is based on the amount of commissions that the Company receives or expects to receive for execution of brokerage transactions and is measured by the Company in terms of Research Purchasing Power. It is understood by the Money Managers and the Company that Research Purchasing Power is not redeemable in cash and, when redeemed, may only be used to obtain third-party research services through the Company. Accordingly, management does not consider Research Purchasing Power to be a financial instrument. The accumulated Research Purchasing Power of Money Managers is reduced when the Company provides third-party research at the request of such Money Managers.

Amounts relating to Money Managers with a positive Research Purchasing Power balance are reflected in the accompanying statements of financial condition as accrued research services. Such amounts represent the estimated third-party research services to be provided to Money Managers from whom the Company has earned commissions for execution of brokerage transactions. Amounts relating to Money Managers with a negative Research Purchasing Power balance are reflected in the accompanying statements of financial condition as deferred research costs. Such amounts represent the amount of research services paid on behalf of Money Managers for which future commissions are expected to be received.

The provision for uncollectible negative Research Purchasing Power balances is determined under the direct write-off method, which is not materially different from the allowance method.